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NATIONAL INTELLIGENCE DAILY CABLE

Thursday September 30, 1976

CI NIDC 76-230C

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NATIONAL SECURITY INFORMATION
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Approved For Release 2007/03/07 : CIA-RDP79T00975A029300010050-1

Approved For Release 2007/03/07 : CIA-RDP79T00975A029300010050-1

National Intelligence Daily Cable for Thursday September 30, 1976

[REDACTED] The NID Cable is for the purpose of informing senior US officials.

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RHODESIA: Nationalist Unity Efforts

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(S NF) //Presidents Kaunda of Zambia, Machel of Mozambique, and Nyerere of Tanzania have agreed to take turns hosting the unity talks between the Zimbabwe African National Union and the Zimbabwe African People's Union.

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[redacted] //Robert Mugabe, who has emerged as the chief spokesman for ZANU, met this week in Lusaka with ZAPU representatives. ZAPU leader Joshua Nkomo, who has been in Rhodesia conferring with members of his faction, reportedly will join in talks when they convene soon in Maputo for a few days and then shift to Dar es Salaam. The presidents appear to have decided that Nkomo should be the principal nationalist leader in planning for an interim government.//

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[redacted] //Nkomo is more widely known than Mugabe, and ZAPU apparently has a stronger political organization inside Rhodesia than does ZANU. Most of the guerrilla forces inside Rhodesia are loyal to ZANU, but the faction's leadership is more fragmented and there are indications that even Mugabe's influence over the faction's military commanders is limited. Nevertheless, he seems to be the only political figure who can represent ZANU.//

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[redacted] //Although the two factions are being pressured by the presidents, their talks could be difficult, and there is no assurance that any alliance would last beyond the interim period. ZAPU will seek to protect its political position, while ZANU tries to exploit its greater military strength. In this vein, Mugabe told the press this week that the settlement proposals are unacceptable unless the guerrilla forces take over control of Rhodesia from the present Rhodesian army under the interim government.//

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[redacted] //The third major nationalist leader, Bishop Abel Muzorewa, seems to have been excluded from the presidents' unity efforts. Muzorewa has virtually no guerrilla forces of his own but does have some political standing inside Rhodesia which he is now trying to increase. [redacted]

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GREECE-TURKEY: Relations

25X1 [redacted] The Greek and Turkish foreign ministers are to meet tomorrow in New York for more procedural talks on the Aegean dispute. At their first meeting on Monday both raised questions that indicate prospects for real progress are poor.

25X1 [redacted] According to Greek officials in Athens, Greek Foreign Minister Bitsios proposed that bilateral negotiations to determine sovereignty over the Aegean seabed begin soon at the technical level. This is a significant change in Greek thinking inasmuch as Greece had previously maintained that direct talks should be limited to drawing up terms of reference for a joint application to the International Court of Justice. There is nothing to suggest, however, that Greece is any less intent on protecting its interests in the Aegean or any less aware of domestic pressure to be tough with the Turks.

25X1 [redacted] In response to the announcement last week that the Turks might carry out Aegean research again next spring, Bitsios reportedly reiterated the Greek position that negotiations cannot take place while exploration continues. He apparently also balked when Turkish Foreign Minister Caglayangil asked the Greeks to withdraw their unilateral application to The Hague Court for a delimitation of Aegean seabed rights.

25X1 [redacted] Caglayangil, according to the Greeks, hinted on Monday that domestic political considerations could limit Turkey's ability to compromise even if negotiations should begin.

25X1 [redacted] With parliamentary elections likely within a year, Turkish politicians will be reluctant to make concessions on such an important foreign policy issue. They could even be tempted to raise new obstacles to a settlement.

25X1 [redacted] The foreign ministers did agree on Monday to treat the question of Aegean seabed rights separately from other problems, according to the Greeks. They also decided that a further meeting on Aegean airspace differences should be scheduled. Inclusive talks were held on this matter in mid-June.

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FINLAND: "New" Government

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[redacted] The three-party centrist coalition announced yesterday in Helsinki, with only 58 seats in the 200-seat parliament, is unstable even by Finnish standards.

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[redacted] Martti Miettunen, who headed the previous five-party coalition, will continue as prime minister in the new government. The cabinet includes the top leaders of the Center Party, as Miettunen had demanded, and this should help the chances for passage of unpopular economic legislation that toppled the old government. Both the Social Democrats and the Communists remained outside the government in order to avoid criticism for the tough economic measures that the new government must enact.

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[redacted] After the economic issues are resolved later this year or in early 1977, the government may resign and regroup with the same three centrist parties and the Social Democrats to form a majority coalition.

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[redacted] Finnish attention in coming weeks will be focused on the municipal elections on October 17-18, which will tend to discourage politicians from attempting to unseat the new coalition. The USSR also will be watching for signs of a conservative shift--similar to the one in Sweden recently--that could affect its relationship with Finland. Polls this summer indicated a decline in the popularity of leftist parties and an increase in support for the more conservative parties in Finland. [redacted]

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[redacted]

EC: Officials Present Conflicting Stories

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[redacted] //EC Commission officials believe that the US proposal for an International Resources Bank will be rejected by the developing countries now participating in the Paris Conference on International Economic Cooperation because it is not sufficiently responsive to their needs.//

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[redacted] //Commission officials recently indicated in discussions with US officials that EC states support the Bank concept, but that several of them have reservations regarding the scope of the Bank's proposed operations and other specific provisions.//

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[REDACTED]

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[REDACTED] //The EC expects to notify the US formally of its position regarding the Bank by the end of next week. [REDACTED]

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UK: Reaction to Pound

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[REDACTED] //Chancellor of the Exchequer Denis Healey announced yesterday that Britain would apply to the International Monetary Fund for \$3.9 billion in additional credit in an effort to reverse the downward slide in sterling.//

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[REDACTED] //According to Healey, the maximum amount Britain can still obtain under its credit arrangements with the IMF is \$3.9 billion. Last May Britain borrowed \$810 million against its total limit of \$4.7 billion.//

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[REDACTED] //Market analysts have speculated for months that Britain would try to obtain funds from the IMF to repay the \$1 billion expended under the \$5.3-billion credit standby arranged by the Group of Ten and Bank of International Settlements.//

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[redacted] //Conservative Party leaders are blaming Labor for sterling's problems. Tory proposals to save the pound include massive public spending cuts and compulsory wage controls.//

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[redacted] //Callaghan and Healey would prefer to avoid such a course for fear of alienating key trade union allies whose support is instrumental in keeping potentially rebellious left-wing Laborities in line in Parliament. An early election, as some are demanding, probably would only produce inconclusive results, leaving the Scottish Nationalists with the balance of power in Parliament and sterling in a more vulnerable position than ever.//

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[redacted] //The IMF will likely press for continued restraints on public spending and growth in the money supply. It may demand fiscal measures beyond those already planned for the fiscal year beginning next April. Stringent measures calling for massive public spending cuts or tax increases, however, seem out of the question in light of Britain's continued 30-year high unemployment level.//

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[redacted] //The IMF will also push for a set money supply growth target. In recent months Healey has stated that the Treasury is aiming for a 12-percent monetary growth rate this fiscal year; it has recently raised the minimum lending rate and special deposits requirement with the Bank of England in an effort to stay within these guidelines.//

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[redacted] //While the IMF loan will allow the UK to repay the Group of Ten and once again intervene on the foreign exchange market in support of sterling, it will provide no long-lasting relief. In the first 8 months of the year Britain spent over \$5 billion in support of the pound but failed to keep sterling from dropping. Over \$5 billion in sterling still remains in official reserves held by foreigners, creating the potential for additional heavy pressure against the pound.//

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[redacted] //Unless some major structural changes take place--in particular, improving the profitability and competitiveness of British industry--there will continue to be a general lack of confidence in Britain's future, inducing sterling holders to sell the currency. Postponing effective reforms would only

gain time at the cost of an enormous increase in its foreign debt. As of the end of July, Britain's official overseas debt was put at about \$17 billion.//

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[redacted] //Market reaction to news of the proposed loan and minor renewed intervention by the Bank of England sent sterling three cents higher to a close of \$1.6665. [redacted]

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IRAN-USSR: Defector

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[redacted] Iran's handling of the defection to Iran last Thursday of a Soviet mail plane pilot appears intended to minimize friction with Moscow.

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[redacted] Under the International Convention on Refugees, Iran is obliged to grant asylum to bona fide refugees and may not force them to return to their homeland. The local representative of the UN High Commissioner for Human Rights has already reminded Iran's foreign minister of its responsibilities under the Convention. [redacted]

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THAILAND: Prime Minister Reappointed

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[redacted] The reappointment of Seni Pramot as Prime Minister on Saturday two days after his abrupt resignation leaves Thailand with the same vacillating and unstable government.

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[redacted] The return of former prime minister Thanom increases Seni's political problems. Seni is caught between conservatives who sympathize with Thanom and liberals who demand his expulsion. The absence of serious unrest so far has permitted Seni to do nothing regarding Thanom--a tack he usually takes until problems reach crisis proportions and bring a consensus for action.

CUBA: Castro Speech

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[redacted] Cuban Prime Minister Castro acknowledged in a speech in Havana on Tuesday that the Cuban economy is experiencing serious problems because of the 60-percent reduction in world sugar prices since last year.

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[redacted] Castro said that imports from Communist countries will be maintained. These imports, which amounted to \$2.1 billion or 55 percent of total purchases last year, are unlikely to be substantially increased this year.

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[redacted] The Cuban leader announced a series of belt-tightening measures that will further restrict the already austere Cuban lifestyle. The coffee ration is to be cut--as was the rice ration earlier in the year--because of drought and the need to

conserve foreign exchange. Other consumer items, all or part of which must be imported from the West, will be limited and, in some cases, eliminated.

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[redacted] Castro reiterated that the basic Cuban development strategy will not change. Because of its comparative advantage in growing sugarcane, Cuba will not seek a radical diversification or agricultural production in an attempt to replace those products now being imported from the West. Sugar is still Cuba's most important export--accounting for 89 percent of total exports in 1975--and substantial expansion of nonsugar exports is several years away.

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[redacted]

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[redacted] Castro made no reference to the situation in southern Africa. [redacted]

ECUADOR: Gulf Oil Dispute

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Ecuador and Gulf Oil remain deadlocked in their dispute, which threatens confiscation of Gulf's interest in the Texaco-Gulf consortium that produces all of Ecuador's oil. If the deadlock is not broken by Friday, the company will have to pay some \$50 million in claims or face confiscation of its properties.

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In an effort to force Ecuador to modify policies that reduce company profit margins, Gulf earlier this year began withholding foreign exchange deposits on export sales. Gulf claimed that prior breach of contract by Ecuador justified the company's actions. By August 22, Gulf held about \$70 million in deposits apparently in the US, of which some \$30 million was overdue. Ecuador asserts that the overdue portion has now reached about \$50 million.

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Gulf has offered to sell its 37.5-percent share in the consortium, but Ecuador wants payment before it will discuss buying out the company. Nevertheless, the junta would prefer not to confiscate and probably would accept a compromise that it felt was reasonable.

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Gulf apparently has three options:

--Full payment of the overdue deposits. In return, Gulf could expect long and difficult nationalization negotiations, with no assurance of receiving satisfactory compensation.

--Retention of the deposits. After confiscation, Gulf would at least be assured of \$70 million but would face a bitter legal battle in Ecuador.

--A compromise involving less than unconditional full payment of the claim but yielding enough to be politically acceptable to the junta. Gulf might have to give up control over all or most of the deposits in such an arrangement.

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Gulf may be unable to collect much more than the deposits it already holds. The company's relationship with nationalistic Minister of Natural Resources Rene Vargas, with whom the company must deal, raises doubts about the possibility of a fair resolution.

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[Redacted] The Ecuadorean government is constrained by internal disagreements in its negotiations with Gulf. Junta President Admiral Poveda is against nationalization, as well as confiscation, on the grounds that Ecuador lacks the managerial expertise to operate its petroleum industry efficiently. Poveda has contemplated removing Vargas, but fears that such action would precipitate a serious conflict with leftists in the army and weaken military backing for the junta. [Redacted]

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